**APPENDIX C**
**Market Study**
**StreetSense, January 2003**

## APPENDIX C - Market Study/ Retail, Office, and Housing Possibilities

For the purposes of this analysis, the project area has been divided into four zones: Friendship Heights (DC), Middle Wisconsin, Tenleytown, and South of Tenleytown (Diagram 1: Project Area Zones). Based on an evaluation of census data, including population and economic indicators; an analysis of trend distribution and projections; interviews with local market strategists, real estate developers and site brokers; an overview of recent and ongoing development activity in the District and project area; as well as a preliminary assessment of land use availability, the following potential 10-year market demand for the project area includes:

- Office: Demand for between 325,000 and 450,000 total square feet of office space, primarily Class B space and focused around the two Metro stations. However, proposed projects in Friendship Heights, Maryland are currently planned to include an additional 420,000 square feet of office space. If these projects are built to plan, demand for office space in the project area will be limited during the next ten years.
- Residential: Total demand for between 1,500 and 1,800 housing units throughout the project area. Approximately 1,000 residential units in Friendship Heights (most likely for-sale). Between 100 and 200 for-sale residential units in Middle Wisconsin. Between 200 and 400 for-rent residential units in Tenleytown. Approximately 200 units (most likely for-sale) of residential in South of Tenleytown.
- Retail: Total unmet demand for between 112,000 and 277,000 square feet of retail in the project area. Between 32,000 and 157,000 square feet of additional retail in Friendship Heights. Between 80,000 and 120,000 square feet of additional retail in Tenleytown/South of Tenleytown.

## OFFICE MARKET ANALYSIS

### Summary

- Within the District's office submarkets, over 96 million square feet of office space is currently leased or available.
- Lower than previous years, DC's office market is expected to reach approximately 1.4 million square feet of absorbed space for 2002.
- Because of the softening of DC's office market over the past 24 months, little Class B or lower space is being constructed in the District.
- The sublet market is also having an effect, as traditional Class B users, such as professional services, are "upgrading" to Class A subleases.
- The extent of new office construction in the CBD and East End is likely to make these two areas into "magnets" for the office market.
- Friendship Heights/Tenleytown is located within the Uptown submarket, which has demonstrated stable office demand over the past 12 months with low vacancies in Class B and C space. Uptown's Class A vacancy rate is among the highest in the District.
- Within the project area, the current office inventory equals approximately 3.2 million square feet with a 4% vacancy rate and rent rates between $24.00 and $35.00. Forty percent of this space is occupied by legal and medical offices.
- Between 2004 and 2012, the project area will support an additional 325,000 to 450,000 square feet of office space, primarily comprised of Class B space.

### Overview of Metropolitan Washington, DC Market

The metropolitan office market includes three primary markets: the District of Columbia, Suburban Maryland, and Northern Virginia. Combined, these three areas are home to over 332 million square feet of office with a vacancy level of 8.3%.[1] (Table 1: Overview of Metropolitan Washington, DC Office Markets.) These numbers indicate a strong office market that has outpaced cities around the country in terms of its ability to withstand a slow economy, remain steady during the technology crisis, and even support limited growth during concerns over DC's vulnerability to terrorism.

Office space is generally defined by three grades: A, B, and C. Class A office space, as described by the Urban Land Institute, are buildings that feature high-grade finishes and amenities. Often, their "address" indicates a desirable location. Class B space has fewer amenities and are often smaller in size than Class A space. Class C space is frequently in older buildings and offers few amenities.

### Suburban Maryland

As the District's office market is buoyed by the federal government, Suburban Maryland is stabilized by continual space demands by the National Institute of Health. However, growing vacancy rates in Suburban Maryland's primary submarket, Bethesda, is starting to raise some concerns about office growth away from the District's rapid downtown expansion. As of third quarter 2002, Suburban Maryland's absorption was negative 340,157 square feet with Class A rents at $25.00 per square foot and Class B at $22.05.[2]

### Northern Virginia

Massive corporate closures and bankruptcies have wreaked havoc in the Northern Virginia submarket which has posted negative office space absorption for most of the past eight quarters. Northern Virginia is not expected to post demand in excess of its current supply for several years.

### District of Columbia

The District of Columbia office market is dominated by the following submarkets: Capitol Hill, Central Business District (CBD), East End, Uptown, and West End/Georgetown (Diagram 2: Office Submarkets). Within these five submarkets, over 96 million square feet of office space is currently leased or available.[3] During the past twelve months, office demand in DC's primary submarkets has remained remarkably resilient. For the third quarter of 2002, vacancy rates in these areas increased to 4.8%, with the lowest vacancies reported in West End/Georgetown (2.9%) and Uptown (4.3%)[4]. Vacancy rates between 4% and 7% are generally considered "stabilized." (Table 2: DC Submarkets, Office Statistics by Class.)

Absorption, however, has slowed considerably this year, as fewer large tenants enter the Metropolitan Washington office market for the first time. Lower than previous years, the District of Columbia market is expected to reach approximately 1.4 million square feet of absorbed space for 2002.[5] In the third quarter of 2002, Class A rents fell in the District of Columbia to $34.15 per square foot. As these rents have fallen, Class A sublet space is now in direct competition with prime Class B space.[6]

Because of the softening of the District of Columbia office market over the past 24 months, little Class B or lower space is being constructed in the District's primary submarkets. High land costs downtown require office rents that command at least $27.00 per square foot, thus requiring the construction of office types that can generate this level of rent (prime Class B or higher). Additionally, the demand for Class B space has stayed low due to the availability of sublet Class A space for approximately the same rents.[7] This trend is anticipated to be at the end of its life cycle as the availability of sublet space is showing signs of shrinking.

The current sublet space is available in blocks of 20,000 square feet or less, thus creating intense competition for small, professional office users. As these businesses have options among almost every type of space, from sublet Class A space in the CBD to converted townhouses in Uptown, the demand for "new to the market," small-sized, professional office space construction is considered stalled for the next twelve to sixteen months.

### Recent Trends

Following aggressive office construction and leasing in the District of Columbia during the late 1990s, several years of market correction were necessary. A slowed number of new building starts and an active sublet market have aided this stabilization process. With continued progress in a rejuvenated economy, the office market in the District of Columbia should achieve a steady equilibrium by the middle of 2003. Renewed confidence, assisted by Federal government expansion, should reinvigorate the development community and financial institutions' interests in new office construction. Due to the effects of the sublet market, one of the areas anticipated to be in shortest supply is Class B and lower space.

In the District of Columbia, new office construction has been concentrated in the CBD and the East End submarkets during the past decade. This trend is unlike the previous decade when new office building starts occurred throughout the City, including along Wisconsin Avenue in the Uptown submarket. The concentration of office space in the downtown area will only continue to enhance its attractiveness as a location for new office space (under the development concept that "like attracts like").

Projections for the next 10 years estimate that new office space within the District will increase by 11,600,000 square feet. As sites in the CBD and East End become scarce, surrounding submarkets will see increased office interest. However, large scale projects like the redevelopment of the former convention center, new construction at the Portals, the redevelopment of Southeast Federal Center, construction of Station Place near Union Station, and numerous smaller projects will keep a large majority of this growth focused in the downtown area.

Tenleytown/Friendship Heights is located within the Uptown submarket. In the third quarter of 2002, Uptown reported a positive net absorption of 26,434 square feet. The strength of this market clearly resides with its Class B and C offerings, which report 4.29% and 2.60% vacancies respectively, as Class A vacancy in Uptown is among the highest in the District at 7.63%.[8] The announcement of temporary offices for the new Department of Homeland Security at the intersection of Nebraska and Massachusetts Avenues raises some questions about future interest in office space near Tenleytown and Friendship Heights.[9] As this situation is evolving, this analysis will need to be revisited, pending a significant influx of personnel (over 1,000 additional workers) or a long-term commitment to the space.

### Existing Conditions in Tenleytown/Friendship Heights

The current inventory of office space in the project area equals approximately 3.2 million square feet, or 3% of the District of Columbia's total office space (Diagram 3: Existing Office Uses). With only a 4% vacancy rate in the third quarter of 2002, this area is commanding rents between $24.00 and $35.00 per square foot (Table 3: Inventory of Office Buildings in the Project Area).

Office space in the Tenleytown/Friendship Heights area (concentrated along the Wisconsin Avenue corridor) is dominated by professional office, with 40% of that space rented to or owned by legal and medical offices. Over the past twelve months, growth has been recorded for both industries in Washington, DC: a 0.9 % increase for legal services and a 1.8% improvement for health services.[10] As the area continues its affiliation with these industries, small professional office growth can be reasonably anticipated.

### Potential Office Market Demand Tenleytown/Friendship Heights

Given Tenleytown/Friendship Heights' total share of the District of Columbia office market at 3%, it is also reasonable to assume that the area will participate in 3% of the District's absorption over the next ten years. Based on slowed absorption in the District for the past four quarters, the next twelve to sixteen months will be an adjustment period that allows surplus office space to stabilize through absorption of existing space and limited new construction.

The Tenleytown/Friendship Heights area will not experience an upswing in the same timetable. At a 4% vacancy rate, the area has demonstrated stability over the past twelve months, but has not exhibited excessive pent-up demand, as the available space in the Tenleytown/Friendship Heights sublease market illustrates. Therefore, it is anticipated that the area will achieve a point of sufficient demand to merit new office construction within a twenty-four to thirty-six month period.

At that point, the area will be in position to absorb new office space. Between 2004 and 2012, we anticipate that the Tenleytown/Friendship Heights area will support an additional 325,000 to 450,000 square feet of office space, focused primarily on Class B space of 80,000 square feet per user or less, with some new Class A space near one of the two Metro stations. Two proposed projects, Chevy Chase Center (Phases I and II) and Wisconsin Place (at the current Hecht's site) are currently planned to include an additional 114,000 and 305,000 square feet of office space, respectively. If these projects are built to plan, demand for office space in the project area will be limited during the next ten years.

If the Department of Homeland Security selects Massachusetts Avenue as its permanent home, a dditional office demand will be generated in the project area, most notably at the intersection of Nebraska and Wisconsin Avenues. The amount and type of this demand will be dependent upon the number of personnel working at this location and the type of departments consolidated there.

## RESIDENTIAL MARKET ANALYSIS

### Summary

- For the past 36 months, DC's for-sale residential market has seen a boost that exceeds the significant growth experienced in other cities across the country.
- Within the District, 3,327 apartment units are under construction with another 1,484 units planned to deliver in the next 36 months, primarily focused in the Downtown and East End areas.
- The vacancy rate in 2002 for apartment units was 4% with more high-rise apartment buildings offering concessions to attract new renters.
- Analysts warn that the DC multi-family market is approaching "build out" and new construction may be stalled for the next three to five years.
- Within Tenleytown and Friendship Heights, the 2002 average home price was $517,000.
- Few multi-family residential options currently exist within the project area, unlike nearby Glover Park or Cleveland Park.
- There are very few multi-family residential buildings within the project area. With the strength of the single-family residential market right outside of the project boundary, there are indications of several years of pent-up, unmet demand for multi-family residential in the project area, especially in close proximity to the Metro stations.
- Demand for multi-family housing in the project area is expected to total 1,500 to 1,800 units during the next ten years.
- This demand is distributed as approximately 1,000 residential units in Friendship Heights (most likely for-rent) between 100 and 200 for-sale residential units in Middle Wisconsin; between 200 and 400 for-rent residential units in Tenleytown; approximately 200 units of for-sale residential in South of Tenleytown.

### Overview of the Washington, DC Residential Market

As seen in other cities across the country, the status of residential markets in Metropolitan Washington, DC is mixed. Home purchases, especially first homes, continue to be strong as tax incentives and low interest rates turn "renters" into "buyers." This condition, however, creates excess apartment supply, driving vacancies up and threatening rental rates. For the past thirty-six months, however, the District of Columbia residential market has seen a boost that exceeds the significant growth currently experienced by other cities across the United States. Several factors have contributed to this abundance, including the stability and expansion of the federal government during a slowdown in the economy, DC's First Time Homebuyer Individual Income Tax Credit, and the Mayor's initiative to attract housing development and residents to the District's downtown area.

### Recent Trends

Multi-Family Residential. As of mid-year 2002, 27,000 units were either planned or under construction in the metropolitan area. This total far exceeds the area's current demand; and with a pattern of annual absorption between 5,000 and 6,000 units, is likely to increase vacancy rates for Suburban Maryland, Northern Virginia and the District of Columbia for the next several years.[11] As fewer office buildings were being constructed, investors have increasingly turned to residential development. As a result, the metropolitan area is preparing for an oversaturated housing market. Within the District, 3,327 apartment units are under construction with another 1,484 units planned to deliver in the next 36 months.[12] This number is likely to overwhelm demand for DC's urban apartment living lifestyle for the next several years.

From a more positive perspective, two factors will most likely avert serious vacancies and rent reductions in the District. First, the stabilizing impact of the Federal government and its ongoing expansion during times of international concern. Second, recent living trends in the metropolitan area are increasing the attractiveness of downtown living. This condition will be further exploited by the recent failure of the Northern Virginia transportation sales tax referendum, which could have alleviated worsening traffic conditions throughout suburban areas. Caution is warranted, however, as early 2002 reports show vacancy rates in the District at 4% with more high-rise apartment buildings offering concessions (cash bonuses at lease signings, one month free rent, reimbursement of moving costs, etc.) to attract new renters.

Due to the burst of residential construction activity during the past twelve months and job increases that, while steady, have slowed, the market for multi-family residences is expected to subside into 2003. In their 2002 Apartment Research Report, Marcus & Millchap predict declining new construction starts for the next three to five years as the District's multi-family market experiences "build out."[13]

Single-Family Residential. Single-family home sales, however, continue to demonstrate a strong and unwavering market in the District. For the third quarter of 2002, the average single-family home price was $388,500, up 12.4% from last year. Condominium/co-op prices saw similar increases with an average price of $250,000, up 13.2%.[14] This number is unsurprising, as previous renters look for investment options within their affordability range.

### Existing Conditions in Tenleytown/Friendship Heights

Within Tenleytown and Friendship Heights, the residential market has kept pace with a 2002 average home price of $517,000.[15] Condominium sales experienced a surge in the fourth quarter of 2001 with the construction of 34 for-sale units and five for-sale townhouses at Tenley Hill. Prices for units in this project ranged from $300,000 to $1.5 million.

Apartments in the project area follow an unusual pattern for Northwest DC with few areas of residential density or apartment high-rises, such as those found in nearby Glover Park or Cleveland Park. Instead, rental opportunities tend to be found in converted single-family homes or small apartment structures of six units or less, often outside of the immediate Wisconsin Avenue corridor area.

### Potential Residential Demand for the Tenleytown/Friendship Heights Area

Single-family residential demand is expected to remain extremely strong in the Tenleytown/Friendship Heights area, due to its location in Washington, DC's desirable northwest quadrant and its close proximity to two Metro stops. For the area included in the project boundaries, it is reasonable to expect that any available land located off Wisconsin Avenue is an ideal candidate for a single-family home. Additionally, average home prices are predicted to continue rising, most likely at a more conservative rate than the dramatic increases of previous years.

Multi-family housing demand in the Upper Wisconsin corridor is more complicated. The area is expected to continue to command a strong housing demand, motivated by the Metro locations. Along Upper Wisconsin Avenue, it is expected that multi-family housing density will be concentrated at the Tenleytown and Friendship Heights stations. It is important to realize, however, that this demand is not limitless. Apartment and condominium housing in this area will be in direct competition with planned or nearly completed construction projects throughout the District, most notably those located along or near the Metro lines in the East End and Columbia Heights. Additionally, new development is planned for several parcels along the Upper Wisconsin corridor. These projects are residential-dominant; most of these developments also include a retail component (Table 4: Planned Development for Friendship Heights/Tenleytown; Diagram 4: Existing and Proposed Multi-Family Residential.)

**Washington Clinic Site: 5401 Western Avenue**
On the site of the Washington Clinic, Stonebridge Associates plans to build 110-125 mid-rise condominium units. Stonebridge is planning to break ground in late 2003.

**WMATA Bus Garage: 5320 Wisconsin Avenue**
Clark Realty Capital has proposed a development at the site of the WMATA bus garage. This project will sink buses one level below ground and develop above ground. The first floor of the project will include 90,000 square feet of retail, while up to 800 apartment units may be included, surrounding a multi-level parking deck. Clark is looking into diversifying its residential market, and hopes to attract a grocery store and inline retail. The project has not yet started the review process and therefore construction would not begin until 2004-2005 at the earliest.

**Former Sears/Hechinger Site: 4500 Wisconsin Avenue**
With construction slated to begin in mid 2003, the former Hechinger site is expected to host a new type of development in Tenleytown. Madison Retail Group's Roadside Development has planned 75,000 square feet of retail and 200 apartment units for the site. This development will be entirely self-parked. Best Buy and the Container Store are slated to open here.

**Tenley Park Duplexes: 3901-3911 Albemarle Street**
Currently under construction, Jim Gibson's Tenley Park Duplexes will add six for-sale townhouse units to the market.

**Current Hecht's Site: Chevy Chase, Maryland**
New England Development is planning to transform the Hecht's site in Chevy Chase, moving the department store to the back area of the site (currently a parking lot), and building 443 apartment units. This project will also include retail and is expected to be completed in the next 18 months to two years.

**Geico: Chevy Chase, Maryland**
Speculation has arisen that Geico is looking to sell their site; however, no one in the development community has publicly acknowledged interest in purchasing this site, at this time.

The addition of these new apartment units and condominiums/townhouses to the Tenleytown/Friendship Heights market will impact the ten-year demand for new multi-family housing in these neighborhoods.

**Potential Residential Market Demand for Tenleytown/Friendship Heights**
Projected demand for new housing throughout the metropolitan area for the next 10 years is anticipated to reach 40,000 multi-family housing units.[16] The District's share of this market can be reasonably estimated at 25-30%, perhaps higher given the District government's commitment to creating housing opportunities within its borders.

Of the District's four quadrants, the northwest area has sustained the strongest and most stable residential market. Over the past several decades, arterial streets, such as Connecticut Avenue, have provided the backbone for the multi-family component of the housing supply. During the past several years, however, a variety of elements, including consumer preferences, city policies and even federal programs (i.e. Freddie Mac's Smart Commute initiative), are focusing residential demand near Metro stations and along bus lines. At Friendship Heights, in particular, numerous market demand factors coincide, including:

- value of nearby housing stock,
- proximity to the Metro station (Red Line accessibility, especially),
- nearby public/private schools of good quality,
- solid reputation of the neighborhood,
- low crime statistics,
- proximity to regional and neighborhood retail, and
- direct vehicular accessibility along Wisconsin Avenue.

These factors also impact Tenleytown, but to a lesser extent, due to the current quality of this neighborhood's retail offerings, the street environment along Wisconsin Avenue, and the relative isolation caused by surrounding institutional uses. Tenleytown is also less well-known regionally as a favorable residential neighborhood than Friendship Heights.

There are indicators that the Tenleytown/Friendship Heights area has sustained pent-up demand for multi-family housing over the last several years. Rapid sales at Tenley Hill indicate unmet demand, as well as extremely low vacancy rates in the few nearby apartment and condominium buildings. For these reasons, the total project demand for multi-family, for-rent housing in Friendship Heights and Tenleytown is estimated at approximately 10-12% (approximately 1,000 units in Friendship Heights and between 200-400 units in Tenleytown) of the District's total demand. It should be noted, that this number reflects market demand or consumer interest in renting apartments in this area and does not reflect the availability of land, the impact of zoning requirements, or the affordability of land costs to meet this demand.

In addition to the demand for apartments in the project area, the District's market for condominiums, especially in locations near (but not immediately adjacent) to Metro stations, remains strong and could reasonably include an addition of at least 300 to 400 for-sale units along the Upper Wisconsin Avenue corridor. This demand is distributed between 100 to 200 for-sale units in the Middle Wisconsin neighborhood and approximately 200 for-sale units in South of Tenleytown. Whether a multi-family housing is for-sale or for-rent depends on a number of market factors including the conditions of land ownership, the correlation between land costs and market rents or sales per square foot, the strength of the apartment and condominium markets during planning and construction.

Tenleytown and Friendship Heights appear poised for solid, incremental residential growth along Wisconsin Avenue. The creation of a multi-family residential community around Friendship Heights and the new units at the former Sears/Hechinger site will begin to establish this area as a residential "place" with options in addition to single-family homes. Whereas Connecticut Avenue is known for its apartment high-rises and Massachusetts Avenue is flanked almost solely by single-family homes, Wisconsin Avenue has the opportunity to become the place where Metro and bus access, retail presence, trees, parks and an outstanding quality of life create the right mix of amenities to allow both multi-family and single-family residential to come together.

## RETAIL MARKET ANALYSIS

### Summary

- Currently, the District hosts 6,373,653 square feet of existing, rentable retail space. Of this amount, 529,013 or 8.3% is vacant.
- Within the District, the average retail square footage per person is 11.14, far below the urban industry standard of 22 square feet per person.
- Within the project area, there is currently 800,000 square feet of retail in Friendship Heights, 120,000 square feet of retail in Tenleytown, and 130,000 square feet along Wisconsin Avenue between these two areas.
- Each of these three areas has a unique retail trade area.
- The total retail market for Friendship Heights over the next five years is anticipated to result in a demand for between 32,000 and 157,000 square feet in excess of what currently exists or is currently planned.
- Construction of retail space in Friendship Heights, Maryland is planned to total approximately 268,000 square feet and will impact the retail demand in Friendship Heights, DC during the next five years.
- The total retail market for Tenleytown/South of Tenleytown over the next five years is anticipated to result in a demand for between 80,000 and 120,000 square feet in excess of what currently exists or is currently planned.
- The total retail market for "Middle Wisconsin Avenue" over the next five years is anticipated to result in a demand for between 93,000 and 115,000 square feet. As this area currently hosts 130,000 square feet, it is expected that this area will undergo market correction.

### Overview of the Washington, DC Retail Market

The Metropolitan Washington, DC area is bustling with retail activity. Outside of the District exists an uncalculated amount of retail in the forms of ten regional malls (averaging one-million square feet each), countless retail power centers, numerous "main street lifestyle centers," and hundreds of community retail centers, anchored by a grocery or drug store.

Currently, the District hosts 6,373,653 square feet of total existing, rentable retail space. Of this amount, 529,013 or 8.3% is vacant. Neighborhood retail space can be leased for as low as $20 per square foot with super regional space renting for up to $85 per square foot.[17] Within the District, the average retail square footage per person is 11.14, far below the urban industry standard of 22 square feet per person. For this reason, Washington, DC is classified as "under-retailed." This condition has been caused by many factors; most notably the close proximity of retail destinations in Virginia and Maryland and the lack of available space to create concentrated retail opportunities.

Within the past twenty-four months, many large-scale, retail-focused projects have started planning or construction. As potential competitors for customers in the Tenleytown and Friendship Heights neighborhoods, the size, scale and character of these developments must be considered prior to determining the area's retail demand (Table 5: Recently Completed or Planned Retail Centers, Overview of Retail Impact; Diagram 5: Retail Impact Analysis).

**Columbia Heights**
Between the DC USA site and the renovated Tivoli Square, Columbia Heights is scheduled to introduce approximately 600,000 new square feet into the District's retail market, including a Target and Giant Foods. This space will be supported by 2,000 new parking spaces and the existing Metro station.[18]

**Woodies Building**
H&M, a Swedish fashion retailer, will anchor the 120,000 square feet of retail development on this site with a 30,000 square foot store. Expected to open in the fall of 2003, H&M will be a cornerstone of the retail renaissance that is taking place in the Downtown Business Improvement District, further driving potential retailers to consider downtown locations.

**Rhode Island Place Shopping Center**
Adding to the District's "urban big box" offerings, a new 52,000 square-foot Giant Foods, a 118,000 square-foot Home Depot store, and a 106,000 square-foot Kmart are open or under construction in Brentwood. Additional small shops will bring the project total to 284,000 square feet.

**Washington Gateway, Brentwood Area, NE**
Developed in partnership between the Peterson Companies and Fort Lincoln New Town Corporation in conjunction with the NCRC, Washington Gateway will host large tenants (most likely over 20,000 square feet each) at the intersection of New York and South Dakota Avenues.[19] The project is expected to total between 350,000 and 400,000 square feet.

Recently completed projects outside of the District will have impacts on the retail activity of Northwest, mostly because of the easy accessibility to Alexandria, Arlington, Bethesda, Crystal City and Pentagon City via parkways and other major routes including Rock Creek Parkway; Wisconsin, Massachusetts, and Connecticut Avenues; as well as Reno, River and Canal Roads.

**Market at Clarendon**
Developed by McCaffrey Interests, Inc., this 240,000 square-foot lifestyle center is drawing customers from the region, including District residents. It is anchored by Barnes and Noble, Crate and Barrel, and Pottery Barn.

**Pentagon Row**
This "Main Street" project, developed by Federal Realty Investment Trust and Post Properties, offers 500 residential units in addition to 300,000 square feet of retail. This total includes between 10 and 12 restaurants; a 45,000 square-foot Harris Teeter grocery store; Bed, Bath and Beyond; and a Hudson Trail Outfitters store. The presence of this shop in Crystal City inevitably deters potential Northern Virginia consumers from HTO's Tenleytown location.

**Existing Conditions in Tenleytown/Friendship Heights**
Friendship Heights, most notably, boasts some of the most successful, destination-driven retail in the District. Booming retail and restaurant sales are attracting new tenants to this area of Northwest DC (Table 6: Existing and Planned Retail Centers in Friendship Heights/Tenleytown; Diagram 6: Existing Retail Uses).

**Friendship Heights, Maryland Development**
Two projects on across the District of Columbia border could contribute to the existing inventory of retail space within and near the project area. Construction of additional retail space in Friendship Heights, Maryland would impact the amount of excess demand projected in this report.

The Chevy Chase Center renovation project will introduce 95,000 square feet of renovated retail space adjacent to the Friendship Heights Metro station. Phase II of this project, which fronts Wisconsin Avenue, is projected to contain 88,000 square feet of additional retail space with office space above. New England Development is currently planning to an additional 85,000 square feet of retail (this total does not include the new Hecht's store that will replace the existing one). Adjacent to a Metro station entrance, this development's retail space will also have Wisconsin Avenue frontage.

**Mazza Gallerie**
Mazza Gallerie was redesigned and renovated by McCaffrey Development in 1997, making it more accessible to vehicular and pedestrian traffic on Wisconsin Avenue. The renovation was completed with the addition of upscale fashion, AMC theaters and an array of lifestyle tenants. 270,000 square feet of retail on four levels and 1200 parking spaces make Mazza Gallerie a regional draw. The center is anchored by Saks for Men, Neiman Marcus and the movie theater.

**Pavilion at Chevy Chase**
Lowe Enterprises opened Chevy Chase Pavilion in 1990 to serve as an office and retail anchor for Friendship Heights. Located at the intersection of Western and Wisconsin Avenues across the street from Mazza Gallerie, Chevy Chase Pavilion adds to the regional draw of the Friendship Heights district. With over 145,000 square feet of retail space on three levels and 640 parking

spaces, the Pavilion is home to such retailers as J. Crew, Pottery Barn, Ann Taylor Loft, and The Cheesecake Factory.

### Friendship Centre

In 1998, McCaffrey Development opened Friendship Centre along Wisconsin Avenue. Four tenants combine for 120,000 square feet of retail space. Eddie Bauer's store closed in January 2003, however, the space is expected to be occupied by Loehmann's later in the year. Friendship Heights's retail success has attracted retailers such as with the TJ Maxx, Chadwicks, Sur La Table, and Kreiss to locate down Wisconsin Avenue as far as Harrison Street.

### Middle Wisconsin Avenue

From Harrison Street to Chesapeake Street, Wisconsin Avenue's retail is less defined and sporadic. Totaling approximately 130,000 square feet, the retail mix in this area includes both national retailers and local entrepreneurs with very few vacancies. These blocks are primarily comprised of neighborhood-serving goods and services, as well as a variety of sit-down and take-out restaurants.

### Former Sears/Hechinger Site

For the former Sears/Hechinger site in Tenleytown, Madison Realty has planned 75,000 square feet of retail, including an approximately 25,000 square-foot Container Store. A Best Buy store of similar size is also expected. Across the street from this site, retailers include Whole Foods, Hollywood Video, Starbucks, Mattress Discounters, Payless Shoe Source, and additional restaurants and discount retailers. This area is supported by a structured parking garage. South of Tenleytown, retail and restaurants are sporadically located until retail is once again consolidated in Glover Park. A large majority of this retail is oriented to vehicular travel.

### Retail Demand Along Upper Wisconsin Avenue

Upper Wisconsin Avenue actually passes through several distinct neighborhoods between Rodman Street and Western Avenue. Starting just north of Rodman Street, retail energy emanates from 4000 Wisconsin Avenue with the Lowes Cineplex Odeon Wisconsin Avenue 6 and approximately 10 stores and take-out food establishments. Along other areas of this corridor, three additional, yet distinct retail centers are either established, in transition, or ripe with potential.

### Friendship Heights

Friendship Heights is recognized as one of the regional shopping centers in the District of Columbia. Essentially, this means that the area draws shoppers from distance of three to five miles or further. The trade area, or potential customer base, for Friendship Heights falls into two categories: the primary trade area and the secondary trade area.

Friendship Heights' primary trade area extends approximately 1.5 miles from the intersection of Wisconsin Avenue and Jenifer Street. Its customer base will rely on the Friendship Heights retail area primarily for daily errands/neighborhood goods and services (Diagram 7: Primary and Secondary Trade Areas, Friendship Heights).

The secondary trade area extends approximately five miles from Friendship Heights. Within this ring, the capture rate for retail expenditures drops, as customers have a greater selection of retail destinations within close proximity.

To determine the total retail demand for the Friendship Heights area, the total household expenditures for each trade area were analyzed in three categories: General Merchandise, Apparel, Furniture/Home Furnishings and Other (GAFO); Convenience Goods, such as items sold in a supermarket, drugstore, or newsstand; Meals and Beverages, or dining and beverage consumption away from the home.

Once total expenditures for each category were calculated, a capture rate was determined for both trade areas. In Friendship Heights, the primary trade area is estimated to capture approximately 20% of the GAFO expenditures; 20% of the Convenience Goods expenditures; and 25% of the Meals and Beverages expenditures. In the secondary trade area, a 15% capture rate is estimated for all categories, except for GAFO which is estimated to have a 10% capture rate due to intense competition in this retail category.

Daytime population expenditures contribute to the retail demand in Friendship Heights. In 2002, the total retail expenditures by a daytime population equaled approximately $60 million. Therefore, office workers in the neighborhood accounted for approximately 170,000 square feet of Friendship Heights' total retail demand.

Based on an industry standard of $350 per square foot sales for retail establishments and $450 per square foot for restaurants, the total retail demand for Friendship Heights for the next five years is estimated to range between 425,000 and 450,000 for GAFO; 700,000 and 750,000 for Convenience Goods; and 475,000 and 525,000 for Meals and Beverages. (Table 7: Friendship Heights Retail Demand Analysis.)

The total projected retail demand for Friendship Heights in the next five years is expected to total approximately 1,600,000 to 1,725,000 square feet. This total leaves 400,000 to 525,000 square feet of untapped market potential in excess of the area's current inventory of approximately 1.2 million square feet (including Friendship Heights, Maryland). It is important to note that the planned residential projects in Friendship Heights are scheduled to add approximately 100,000 retail square feet to the market in the next five years, and this number is not included in current inventory numbers quoted above, nor was it subtracted from the total potential demand. Additionally, new retail space in the Wisconsin Place and Chevy Chase Center projects could total 268,000 square feet. Therefore, if the retail space in the planned projects is included in the inventory of Friendship Heights space, the unmet demand for this area over the next five years is between 32,000 and 157,000 square feet.

### Tenleytown/South of Tenleytown

With the possible additions of The Container Store and Best Buy at the Hechinger site, Tenleytown is expected to attract a larger trade area than it currently draws. From its central location, Tenleytown will have the potential to draw a customer base from most of Northwest DC – from the Potomac River to Rock Creek Park, and from Friendship Heights to downtown DC. For the purposes of the retail market demand analysis, the Tenleytown and South of Tenleytown neighborhoods have been evaluated together, as their customers and trade areas are closely linked.

The trade area for these neighborhoods is best represented by a three-mile ring around the intersection of Albemarle and Wisconsin Avenue. However, the local neighborhood around Tenleytown represents a significant market with a higher retail sales capture rate. The neighborhood within one-half mile of Tenleytown will represent its primary trade area. The three-mile ring will serve as a secondary trade area (Diagram 8: Primary and Secondary Trade Areas, Tenleytown).

Similar to the Friendship Heights' demand analysis, total expenditures for each category were calculated for Tenleytown's trade areas and capture rates were also determined. For Tenleytown/South of Tenleytown, the primary trade area is estimated to capture approximately 15% of the GAFO expenditures; 20% of the Convenience Goods expenditures; and 20% of the Meals and Beverages expenditures. In the secondary trade area, a 5% capture rate was estimated for all categories, based on the competition for all goods throughout Northwest DC.

Daytime population expenditures in Tenleytown/South of Tenleytown for 2002 equaled approximately $25 million. Therefore, office workers in the neighborhood accounted for approximately 70,000 square feet of Tenleytown's total retail demand. Because Tenleytown is an emerging retail market, the industry standard sales per square foot figures were lowered to $300 per square foot sales for retail establishments and $375 per square foot for restaurants. Based on these calculations, the total retail demand for Tenleytown for the next five years is estimated to range between 95,000 and 110,000 square feet for GAFO; 120,000 and 130,000 square feet for Convenience Goods; and 60,000 and 75,000 for Meals and Beverages (Table 8: Tenleytown Retail Demand Analysis).

The total retail demand for Tenleytown for the next five years is expected to reach between 275,000 and 315,000 square feet. Currently, the inventory of retail space in this area is approximately 120,000 square feet. Including the retail space at the former Sears/Hechinger site as part of the current inventory, the total retail potential for Tenleytown for the next five years is estimated to range between 80,000 and 120,000 square feet.

### Middle Wisconsin Avenue

The trade area for Wisconsin Avenue between Tenleytown and Friendship Heights is better defined as a polygon that extends from Massachusetts to Connecticut Avenue and from Macomb Street to Western Avenue. These boundaries were chosen because of the psychological barriers that these routes represent. Although residents between Cleveland Park and Tenleytown might choose to shop in either destination, it would be unreasonable for someone who lives on the east side of Connecticut Avenue to pass Cleveland Park to conduct business in Tenleytown, all things being equal (Diagram 9: Trade Area, Middle Wisconsin).

Because of the character of Middle Wisconsin Avenue's retail, which is predominantly either vehicular-oriented or local-neighborhood in orientation, only one trade area is necessary for its analysis. For Middle Wisconsin Avenue, the trade area is estimated to capture approximately 10% of the GAFO expenditures; 25% of the Convenience Goods expenditures; and 25% of the Meals and Beverages expenditures.

Because Middle Wisconsin is an unproven retail market with potential, the industry standard sales per square foot figures were lowered to $275 per square foot sales for retail establishments and $350 per square foot for restaurants. Based on these calculations, the total retail demand for Tenleytown for the next five years is estimated to range between 33,000 and 40,000 square feet for GAFO; 35,000 and 45,000 square feet for Convenience Goods; 25,000 and 30,000 for Meals and Beverages (Table 9: Middle Wisconsin Retail Demand Analysis).

The total retail demand for Middle Wisconsin for the next five years is expected to reach approximately 93,000 to 115,000 square feet. This projected demand exceeds the current inventory of 130,000 square feet, thereby suggesting that underperforming retail is located in this area. If the retail condition of this area improves with the creation of a comprehensive retail strategy, streetscape improvements, and parking alternatives, retailers will face higher expectations in terms of sales per square foot and rent rates. It is anticipated that the Middle Wisconsin Avenue area stabilizes with retail offerings that total between 93,000 and 115,000 square feet.

**(Footnotes)**

1 The CoStar Market Report, Second Quarter 2002.

2 Advantis, Third Quarter 2002, Office Report, Washington, DC, Metropolitan Area.

3 Advantis Report.

4 Advantis Report.

5 CB Richard Ellis, Washington, DC Office Market, Third Quarter 2002.

6 CB Richard Ellis, Washington, DC Market Index Brief, Third Quarter 2002.

7 Cassidy & Pinkard, Market Insights, Third Quarter 2002, Market Observations.

8 CB Richard Ellis, Third Quarter Report, 2002.

9 "Homeland Security Settles on D.C.," Washington Post, January 23, 2002.

10 Government of the District of Columbia, D.C. Economic Indicators, November 2002.

11 Transwestern Commercial Services, Trendlines 2002: Trends in Washington/Baltimore Commercial Real Estate, 2002.

12 Third Quarter 2002 Report: Mid-Atlantic Region: Class A Rental Apartment Market, Delta Associates.

13 Marcus & Millchap, Apartment Research Report, July 2002.

14 Metropolitan Regional Information System, Greater Capital Area Association of Realtors, Third Quarter 2002.

15 Zip Realty, Home Sales Finder, December 2002.

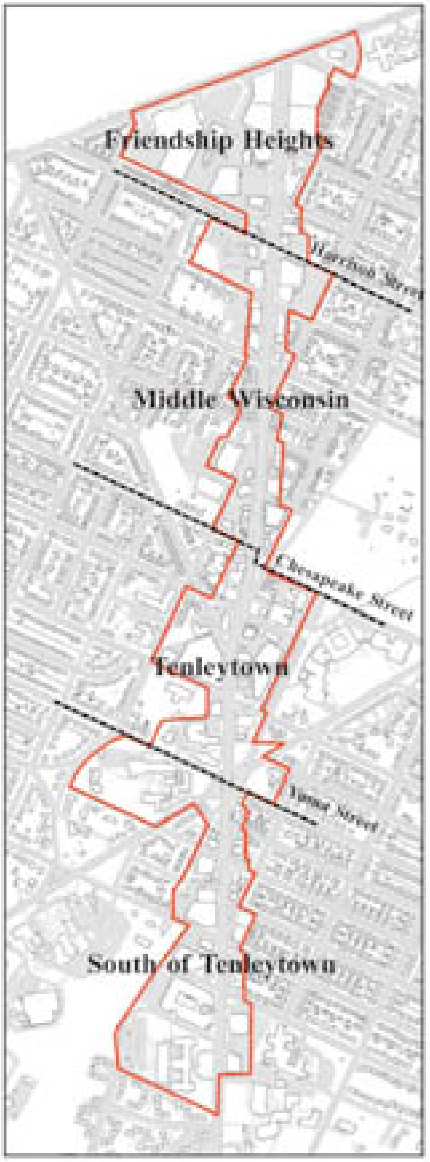
16 ERA, Metropolitan Washington Council of Governments, January 2003.

17 Madison Retail/DC Marketing Center

18 National Capital Revitalization Corporation

19 Washington Business Journal, May 31, 2002.

## Diagram 1: Project Area Zones

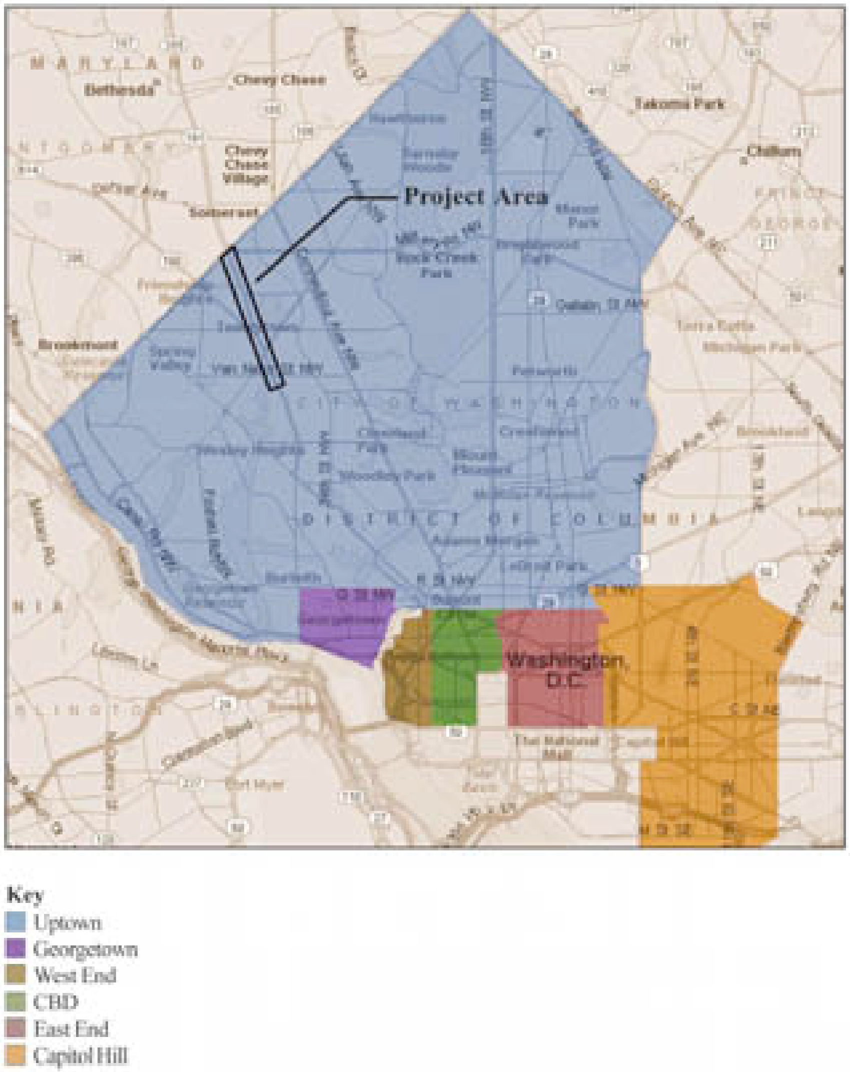



## Table 1: Overview of Metropolitan Washington, DC Office Markets

| Market | Total SF of Office | Total Space Available | % Vacant | Average Rent |
|---|---|---|---|---|
| | | | | |
| Suburban Maryland | 64,891,812 | 7,945,690 | 9.50% | $22.72 |
| | | | | |
| Northern Virginia | 128,076,700 | 20,014,677 | 10.70% | $24.05 |
| | | | | |
| District of Columbia | 96,964,796 | 6,519,952 | 4.8% | $34.24 |
| Capitol Hill | 19,671,141 | 1,179,264 | 5.6% | $33.41 |
| CBD | 34,149,775 | 2,664,864 | 5.1% | $34.46 |
| East End | 31,103,917 | 1,984,352 | 4.5% | $36.46 |
| Uptown | 6,012,910 | 320,619 | 4.3% | $28.27 |
| West End/Georgetown | 6,027,053 | 370,853 | 2.9% | $33.64 |

Source: Advantis, Mid-Year 2002 Office Report, Washington, DC Metropolitan Area

## Diaram 2: Office Submarkets




## Table 2: DC submarkets, Office Rental Rates

| Type | Net Rentable Area (sf) | Vacancy Rate | Net Absorption (sf) | Under Construction (sf) | Average Asking Lease Rate SF/YR |
|---|---|---|---|---|---|
| Class A | 14,773,333 | 7.57% | 39,598 | | $40.47 |
| Class B | 17,565,019 | 4.70% | -129,660 | | $33.55 |
| Class C | 523,319 | 0.30% | -1,564 | | $29.50 |
| Total | 32,861,671 | 6.14% | -91,626 | 1,296,379 | $36.46 |

**CAPITOL HILL**

| Type | Net Rentable Area (sf) | Vacancy Rate | Net Absorption (sf) | Under Construction (sf) | Average Asking Lease Rate SF/YR |
|---|---|---|---|---|---|
| Class A | 4,857,716 | 4.75% | 39,423 | | $33.62 |
| Class B | 2,305,562 | 0.84% | 1,823 | | $32.49 |
| Class C | 451,811 | 5.66% | -3,579 | | $30.00 |
| Total | 7,615,089 | 5.80% | 37,667 | 1,325,117 | $33.72 |

**EAST END**

| Type | Net Rentable Area (sf) | Vacancy Rate | Net Absorption (sf) | Under Construction (sf) | Average Asking Lease Rate SF/YR |
|---|---|---|---|---|---|
| Class A | 15,663,099 | 6.51% | 222,596 | | $43.78 |
| Class B | 7,029,845 | 4.78% | 32,213 | | $36.57 |
| Class C | 1,082,920 | 9.65% | 4,744 | | $27.96 |
| Total | 23,775,864 | 5.76% | 259,553 | 3,041,959 | $41.10 |

**UPTOWN (1)**

| Type | Net Rentable Area (sf) | Vacancy Rate | Net Absorption (sf) | Under Construction (sf) | Average Asking Lease Rate SF/YR |
|---|---|---|---|---|---|
| Class A | 1,367,908 | 7.63% | -2,150 | | $30.88 |
| Class B | 2,370,647 | 4.29% | 25,482 | | $29.30 |
| Class C | 1,024,640 | 2.60% | 3,102 | | $27.96 |
| Total | 4,763,195 | 4.89% | 26,434 | 0 | $29.57 |

**WEST END/GEORGETOWN**

| Type | Net Rentable Area (sf) | Vacancy Rate | Net Absorption (sf) | Under Construction (sf) | Average Asking Lease Rate SF/YR |
|---|---|---|---|---|---|
| Class A | 3,492,341 | 4.49% | -60,685 | | $38.48 |
| Class B | 1,717,029 | 4.58% | 36,821 | | $26.43 |
| Class C | 620,915 | 0.47% | -769 | | $24.72 |
| Total | 5,830,285 | 4.09% | -24,633 | 0 | $32.33 |

(1) Includes Project Area: Tenleytown/Friendship Heights
Source: CB Richard Ellis, Washington, DC Market Index Brief, Third Quarter 2002

## Diagram 3: Existing Office Uses


## Table 3: Inventory of Office Buildings in the Project Area

| Address | Building Name | Class | Year Built | Stories | Rentable Building Area | Direct SF Vacant |
|---|---|---|---|---|---|---|
| 3900 Wisconsin Avenue | | | unknown | | 80,000 | |
| 3939 Wisconsin Avenue | | B | 1960 | 3 | 41,500 | |
| 4000 Brandywine Street | | B | 1964 | 6 | 33,720 | |
| 4000 Wisconsin Avenue | Fannie Mae Headquarters | A | 1988 | 5 | 467,000 | |
| 4001 Brandywine Street | | B | 1953 | 5 | 638,310 | |
| 4100 Wisconsin Avenue | Broadcast House | A | 1991 | 8 | 109,890 | |
| 4115 Chesapeake Street | | C | 1960 | 4 | 38,000 | |
| 4115 Wisconsin Avenue | | C | 1925 | 5 | 14,000 | 1,397 |
| 4200 Wisconsin Avenue | Tenley Mall Building | B | 1975 | 5 | 140,058 | |
| 4201 Wisconsin Avenue | | B | 1986 | 5 | 55,000 | |
| 4228 Wisconsin Avenue | | B | 1967 | 5 | 72,087 | |
| 4400 Jenifer Street | Jenifer Mall | B | 1972 | 4 | 83,269 | |
| 4435 Wisconsin Avenue | Wisconsin Building | C | 1956 | 5 | 35,600 | 8,979 |
| 4500 Wisconsin Avenue | | | unknown | | 180,000 | 95,000 |
| 4530 Wisconsin Avenue | Tenley Point | A | 1987 | 5 | 40,000 | |
| 4545 42nd Street | Brandywine Plaza Building | C | 1981 | 3 | 39,300 | |
| 4620 Wisconsin Avenue | Tenley Metro Building | B | 1988 | 4 | 40,000 | |
| 4624 Wisconsin Avenue | | B | 1994 | 3 | 9,000 | |
| 4626 Wisconsin Avenue | | | unknown | | 8,600 | |
| 4631 41st Street | | C | unknown | 1 | 825 | |
| 4646 40th Street | Stuart Building | B | 1953 | 3 | 36,529 | |
| 4701 Wisconsin Avenue | | C | 1928 | 2 | 1,936 | |
| 4725 Wisconsin Avenue | | A | 2001 | 5 | 18,120 | |
| 4801 Wisconsin Avenue | | | unknown | | 23,339 | |
| 4904 Wisconsin Avenue | | C | 1938 | 2 | 5,168 | |
| 4906 Wisconsin Avenue | | C | 1979 | 3 | 6,350 | |
| 5010 Wisconsin Avenue | | C | 1962 | 4 | 50,619 | |
| 5025 Wisconsin Avenue | | B | 1981 | 5 | 54,500 | |
| 5028 Wisconsin Avenue | | B | 1970 | 4 | 45,295 | 9,500 |
| 5034 Wisconsin Avenue | | C | unknown | 2 | 19,000 | |
| 5100 Wisconsin Avenue | | C | 1964 | 5 | 83,367 | |
| 5101 Wisconsin Avenue | Washington Federal Building | B | 1987 | 5 | 58,647 | 7,330 |
| 5151 Wisconsin Avenue | WTTG Building | B | 1963 | 5 | 104,000 | |
| 5225 Wisconsin Avenue | | B | 1963 | 6 | 9,360 | |
| 5232-5236 44th Street | | C | 1937 | 2 | 7,072 | |
| 5247 Wisconsin Avenue | | B | unknown | 2 | 2,311 | |
| 5252 Wisconsin Avenue | | B | 1975 | 2 | 50,751 | 6,243 |
| 5301 Wisconsin Avenue | Chevy Chase Plaza | A | 1988 | 8 | 146,000 | |
| 5335 Wisconsin Avenue | Chevy Chase Pavillion | A | 1990 | 9 | 349,832 | 11,016 |
| 5401 Western Avenue | Washington Clinic | C | 1955 | 3 | 24,000 | |
| | | | | | | |
| TOTAL | | | | | 3,202,349 | 139,465 |

Source: CoStar Realty Report, December 2002

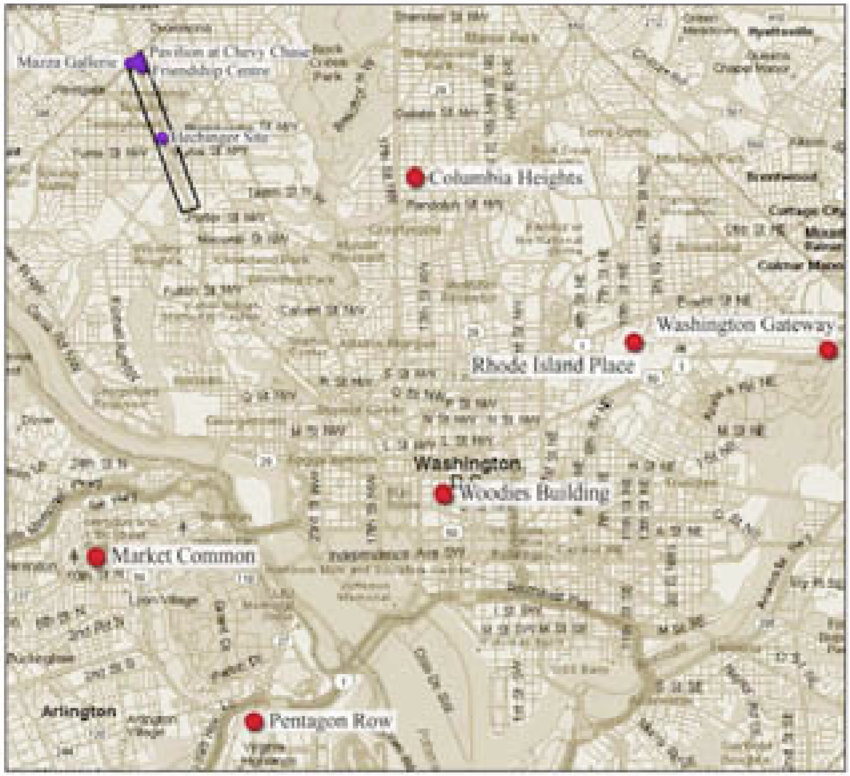
## Diagram 4: Existing and Proposed Multi-Family Residential


## Table 4: Planned Development for Friendship Heights/Tenleytown

| Name | Location | Developer | Number of Units and Type | Timing |
|---|---|---|---|---|
| Washington Clinic | 5401 Western Avenue | Stonebridge Associates | 200 units for-sale, 10-12 townhouses | Groundbreaking 2005 |
| WMATA Bus Garage | 5320 Wisconsin Avenue | Clark Realty Capital/WMATA | 800 units for-rent | Completion 2004 or 2005 |
| Former Hechinger Site | 4500 Wisconsin Avenue | Madison Retail/Roadside Development | 200 units for-rent | Groundbreaking late 2005 |
| Current Hecht's Site | Wisconsin Avenue, Maryland | New England Development | 443 units for-rent | Completed in 2005 or 2006 |
| Tenley Park Duplexes | 3901-3911 Albemarle Street | Jim Gibson | 6 townhouses | Completion 2005 |
| Geico Site | No information available at this time | | | |

Source: DC Office of Planning and Economic Development, Stonebridge Associates, Clark Realty Capital, Madison Retail, New England Development

## Diagram 5: Retail Impact Analysis




**Key**

- Influential Retail outside Corridor
- Influential Retail within Corridor

## Table 5: Recently Completed or Planned Retail Centers, Overview of Retail Impact

| Name | Location | Total Retail SF | Anchors | Distance from Project Area |
|---|---|---|---|---|
| Columbia Heights | Washington, DC | 600,000 | Target, Giant Foods | 2.75 miles |
| Woodies Building | Washington, DC | 120,000 | H&M | 4.75 miles |
| Rhode Island Place | Washington, DC | 284,000 | Giant Foods, Home Depot, Kmart | 5 miles |
| Washington Gateway | Washington, DC | 350,000 - 400,000 | unknown | 7 miles |
| Market at Clarendon | Arlington, VA | 240,000 | Barnes and Noble, Crate and Barrel, Pottery Barn | 4.5 miles |
| Pentagon Row | Arlington, VA | 300,000 | Harris Teeter; Bed, Bath & Beyond | 6 miles |

Source: Downtown DC, Washington Post, DC Marketing Center

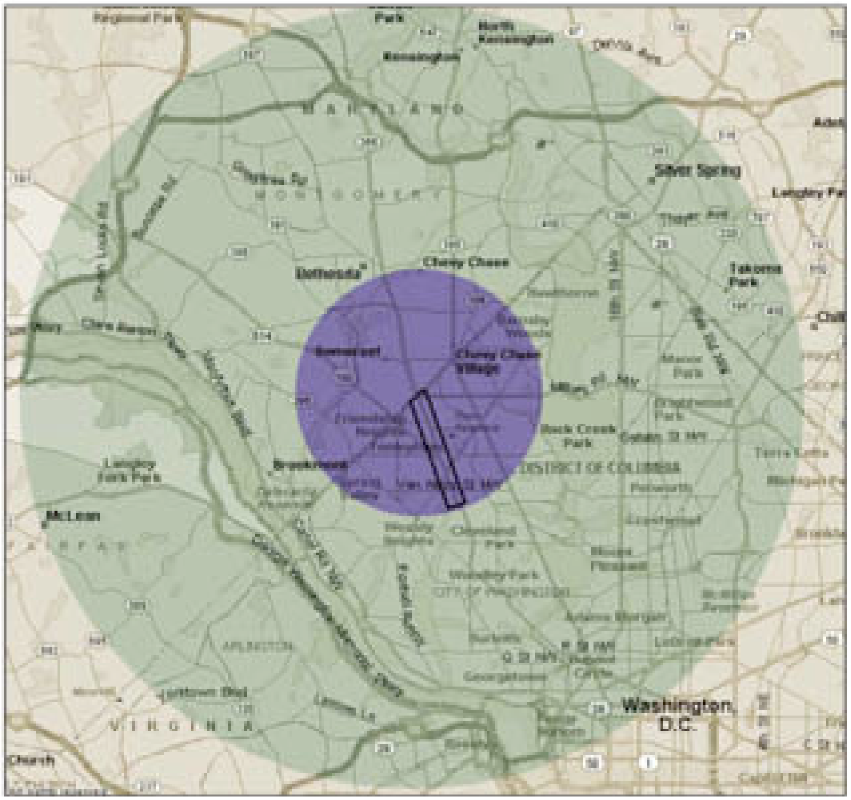
## Diagram 6: Existing Retail Uses


## Table 6: Existing and Retail Centers in Friendship/Tenleytown

| Name | Location | Total SF of Retail | Anchors |
|---|---|---|---|
| Mazza Galleria | Friendship Heights | 270,000 | AMC Theaters, Neiman Marcus |
| Pavilion at Chevy Chase | Friendship Heights | 145,000 | J. Crew, Pottery Barn, The Cheesecake Factory |
| Friendship Centre | Friendship Heights | 120,000 | Border's, Linens & Things, Loehmann's |
| Former Hechinger Site | Tenleytown | 75,000 | Best Buy, Container Store |

Source: National Research Bureau, Shopping Center Directory, 42nd Edition, 2002; DC Marketing Center, Washington Post

## Diagram 7: Primary and Secondary Trade Areas, Friendship Heights



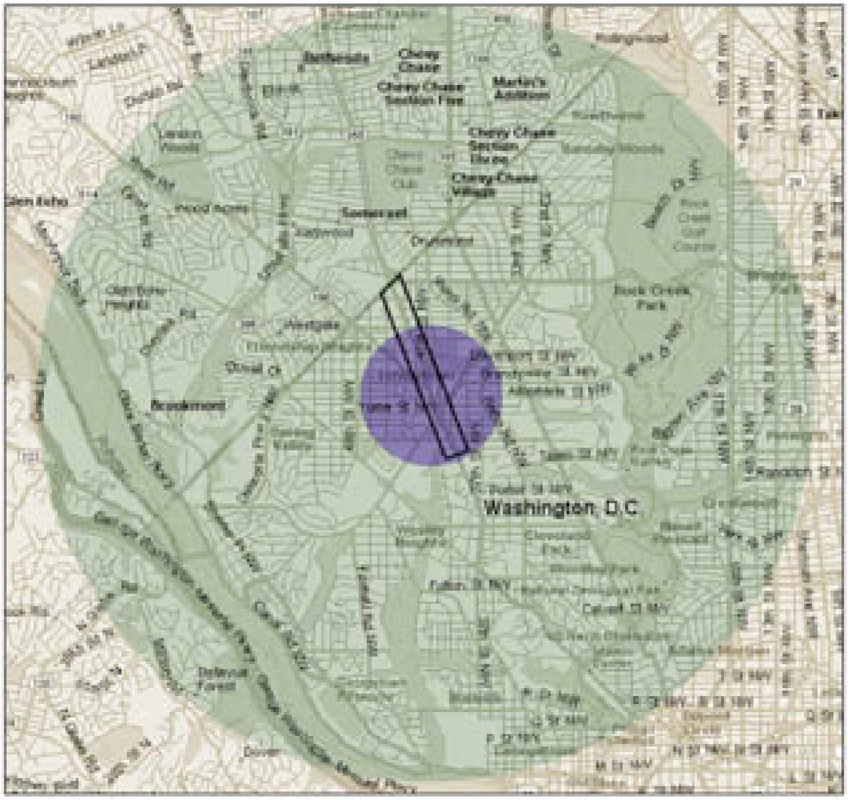

**Key**
- Primary Trade Area (radius = 1.5 miles)
- Secondary Trade Area (radius = 5 miles)

## Table 7: Friendship Heights Retail Demand Analysis

| | 1.5 Mile Radius | | | | 5 Mile Radius | | |
|---|---|---|---|---|---|---|---|
| | Total | Capture Rate | Total SF Demand | | | Capture Rate | Total SF Demand |
| Estimated Households (2002) | 22,989 | | | | 212,345 | | |
| Projected Households (2007) | 23,546 | | | | 216,760 | | |
| | | | | | | | |
| Est. Average Household Income (2002) | $83,387 | | | | $76,576 | | |
| Proj. Average Household Income (2007) | $89,282 | | | | $83,178 | | |
| | | | | | | | |
| Total Household Expenditure (2002) | $1,916,983,743 | | | | $16,200,530,720 | | |
| Proj. Household Expenditure (2007) | $2,102,233,972 | | | | $18,039,229,760 | | |
| | | | | | | | |
| Total Retail Expenditures (2002) | $598,176,000 | | | | $5,107,969,000 | | |
| Apparel (2002) | $79,096,000 | | | | $679,074,000 | | |
| Furnishings And Equipment (2002) | $58,408,000 | | | | $495,870,000 | | |
| Miscellaneous Expenses (2002) | $16,456,000 | | | | $140,700,000 | | |
| Subtotal | $153,960,000 | 20.0% | 87,977 | | $1,315,644,000 | 10.0% | 375,898 |
| | | | | | | | |
| Meals And Beverages (2002) | $114,189,120 | 25.0% | 43,438 | | $975,999,360 | 15.0% | 418,285 |
| | | | | | | | |
| Personal Care (2002) | $24,445,000 | | | | $209,817,000 | | |
| Reading (2002) | $7,811,000 | | | | $66,691,000 | | |
| Tobacco (2002) | $13,121,000 | | | | $112,027,000 | | |
| Grocery and Take Home Food (2002) | $123,704,880 | | | | $1,057,332,640 | | |
| Subtotal | $169,081,880 | 20.0% | 98,618 | | $1,445,867,640 | 15.0% | 619,700 |
| | | | | | | | |
| | | | | | | | |
| TOTAL RETAIL DEMAND | | | 248,654 | | | | 1,413,884 |

Source: Applied Geographic Solutions; 2000 U.S Census; StreetSense

## Diagram 8: Primary and Secondary Trade Areas, Tenleytown




**Key**
- Primary Trade Area (radius = 0.5 miles)
- Secondary Trade Area (radius = 3 miles)

## Table 8: Tenleytown Retail Demand Analysis

| | 0.5 Mile Radius | | | 3 Mile Radius | | |
|---|---|---|---|---|---|---|
| | Total | Capture Rate | Total SF Demand | Total | Capture Rate | Total SF Demand |
| Estimated Households (2002) | 2,617 | | | 95,815 | | |
| Projected Households (2007) | 2,612 | | | 97,712 | | |
| Forecasted Households (2012) | 2,605 | | | 99,495 | | |
| | | | | | | |
| Est. Average Household Income (2002) | $72,141 | | | $74,950 | | |
| Proj. Average Household Income (2007) | $79,007 | | | $81,776 | | |
| | | | | | | |
| Total Household Expenditure (2002) | $188,792,997 | | | $7,183,334,230 | | |
| Proj. Total Household Expenditure (2007) | $206,366,284 | | | $7,990,496,512 | | |
| | | | | | | |
| Total Retail Expenditures (2002) | $80,507,000 | | | $2,293,539,000 | | |
| Apparel (2002) | $8,045,000 | | | $304,738,000 | | |
| Furnishings And Equipment (2002) | $3,887,000 | | | $222,796,000 | | |
| Miscellaneous Expenses (2002) | $1,674,000 | | | $63,265,000 | | |
| Subtotal | $13,604,000 | 15.0% | 7,802 | $590,799,000 | 5.0% | 98,467 |
| | | | | | | |
| Meals And Beverages (2002) | $11,548,800 | 20.0% | 6,159 | $444,779,130 | 5.0% | 39,308 |
| | | | | | | |
| Personal Care (2002) | $2,493,000 | | | $94,291,000 | | |
| Reading (2002) | $795,000 | | | $30,022,000 | | |
| Tobacco (2002) | $1,326,000 | | | $30,194,000 | | |
| Grocery and Take Home Food (2002) | $12,511,200 | | | $483,844,064 | | |
| Subtotal | $17,125,200 | 20.0% | 11,415 | $656,351,064 | 5.0% | 109,392 |
| | | | | | | |
| | | | | | | |
| TOTAL RETAIL DEMAND | | | 25,376 | | | 247,162 |

Source: Applied Geographic Solutions; 2000 U.S Census; StreetSense

## Diagram 9: Trade Area, Middle Wisconsin


Key

Trade Area

## Table 9: Middle Wisconsin Retail Demand Analysis

| | Specialized Trade Area: See Diagram | | |
|---|---|---|---|
| | Total | Capture Rate | Total SF Demand |
| Estimated Households (2002) | 7,880 | | |
| Projected Households (2007) | 8,153 | | |
| Forecasted Households (2012) | 8,421 | | |
| | | | |
| Est. Average Household Income (2002) | $67,418 | | |
| Proj. Average Household Income (2007) | $74,109 | | |
| | | | |
| Total Household Expenditure (2002) | $531,253,840 | | |
| Proj. Total Household Expenditure (2007) | $604,210,677 | | |
| | | | |
| Total Retail Expenditures (2002) | $178,208,000 | | |
| Apparel (2002) | $24,033,000 | | |
| Furnishings And Equipment (2002) | $17,180,000 | | |
| Miscellaneous Expenses (2002) | $4,955,000 | | |
| Subtotal | $46,168,000 | 20.0% | 33,577 |
| | | | |
| Meals And Beverages (2002) | $38,050,000 | 25.0% | 27,179 |
| | | | |
| Personal Care (2002) | $7,465,000 | | |
| Reading (2002) | $2,340,000 | | |
| Tobacco (2002) | $3,887,000 | | |
| Grocery and Take Home Food (2002) | $34,200,000 | | |
| Subtotal | $47,892,000 | 20.0% | 34,831 |
| | | | |
| | | | |
| TOTAL RETAIL DEMAND | | | 95,586 |

Source: Applied Geographic Solutions; 2000 U.S Census; StreetSense

**Business Improvement District**

A Business Improvement District, more commonly referred to as a BID, is an entity determined by geographic borders within which business owners have agreed to pay a fee to provide additional services to the area encompassed by the BID. BID services typically include safety and maintenance, security, physical improvements such as streetscape, marketing, and occasionally special programs to assist problems faced by the BID.

A. Funding

All Business Improvement Districts within the District of Columbia must be formed according to the District of Columbia Business Improvement Districts Act 12996. Once a BID has been defined and formed, all tenants within the boundaries automatically become BID members. BIDs are financed by a tax levied on all taxable commercial real properties within the BID, as well as voluntary contributions and contracts for services from tax-exempt properties located within the BID. Assessments are most commonly calculated based on a percentage of the assessed value for each property within the BID, or by a specific dollar amount per square foot of commercial property per year. Other methods include assessing based on street frontage, location, business use, or a combination of methods.

In some Business Improvement Districts, only retail users are assessed a fee, as they gain the most from the BID's programming. Other BIDs, such as the Downtown DC BID assess all commercial properties within their boundaries. Although including office space in the assessments for a Business Improvement District generates a larger budget, we feel that this is not an appropriate requirement along Upper Wisconsin, as office users would benefit relatively little from the BID's programming.

Using the method of assessing fees based on a percentage of the assessed value for each property in the BID, we have calculated the potential income of a Business Improvement District encompassing the designated project area and stretching from Yuma Street at the south to Western Avenue at the north.

Method 1: Retail Contributions - A standard of $0.15 per sf per year was used. This is a conservative assessment and is based on average property assessments among BIDs in the United States. For a 3000 square foot store, this would amount to an annual charge of $450.

$0.15 per sf * 1.05 million sf = $157,500

With an annual budget of $157,500 the Upper Wisconsin BID would be able to finance:

- $50,000 Public Safety and Maintenance, the equivalent of 1 workers, equipment and related supplies and overhead
- $50,000 Marketing, including production/supplies
- $60,000 Administration, including management staff (1/2 worker), overhead such as rent, insurance, supplies, and funds for legal and accounting services.

Method 2: Retail and Office Contributions - Using the same standard, we calculated the potential income based on retail and office contributions:

$0.15 per sf * (1.05 million sf retail + 1.75 million sf office) = $402,990

With an annual budget of $402,990 the Upper Wisconsin BID would be able to finance:

- $150,000 Public Safety and Maintenance, the equivalent of 3-4 workers, equipment and related supplies and overhead
- $150,000 Marketing, including production/supplies
- $100,000 Administration, including management staff (1 worker), overhead such as rent, insurance, supplies, and funds for legal and accounting services.

B. Formation

As the assessment of an additional tax on certain properties is certain to be controversial, a legal requirement has been established. The formation of a Business Improvement District requires a significant amount of community support: fifty percent (50%) of assessed properties must vote in favor of formation, while twenty-five percent (25%) of the representatives of each parcel of land within the proposed BID's boundaries must also vote in favor. For larger tenants and national retailers, this vote may be easy to obtain; however, smaller independent retailers may balk at an additional deduction from their profits, unless they can see a benefit.

C. Conclusion

Small Business Improvement Districts ($40,000 to $250,000 annual budget) tend to focus on "clean and safe," promotions and special events, and business attraction and retention programs. We believe that the creation of a Merchants' Association for the Upper Wisconsin retail community would be a far simpler process and would most likely achieve the same results, if not better, than a BID.